

Message Text

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PAGE 01 COLOMB 02500 121233Z

46 S

ACTION NEA-10

INFO OCT-01 ISO-00 SS-15 SP-02 EB-07 INR-07 /042 W

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R 121115Z AUG 75

FM AMEMBASSY COLOMBO

TO SECSTATE WASHDC 3202

C O N F I D E N T I A L COLOMBO 2500

STADIS//////////

EO 11652: XGDS-1

TAGS: ABUD, ECON

SUBJ: HANDLING OF FEEC RATE ISSUE

REF: COLOMBO 2320

1 EMBASSY SENDING BY SEPTTEL CURRENT POST AND COUNTRY TEAM ARGUMENTATION FOR RESTORING FEEC RATE FOR ACCOMMODATION EXCHANGE. WE ALSO SENDING VIA TODAY'S POUCH AN ANALYTICAL MEMORANDUM DEMONSTRATING WHY SWITCH NOW FROM OFFICIAL TO FEEC RATE MAXIMIZES RATE OF DOLLAR RETURN TO TREASURY ON PRESENT AND EXPECTED RUPEE BALANCES THROUGH 1982 (AT WHICH TIME RUPEE BALANCES WILL HAVE DISAPPEARED). WE LEAVE TO DEPARTMENT'S DISCRETION WHEHTER IT IS TACTICALLY DESIRABLE TO RAISE MATTER IMMEDIATELY WITH TREASURY OR TO AWAIT RECEIPT OF POUCHED MEMORANDUM. OUR INCLINATION WOULD BE TO MOVE AHEAD AT ONCE ON BASIS OF WHAT WE CONSIDER TO BE A VERY PERSUASIVE CASE PRESENTED IN OUR TELEGRAM. CURRENT RAPID DE FACTO DEPRECIATION OF RUPEE INCREASES EFFECTIVE SPREAD BETWEEN THE TWO RATES WITH GROWING DISADVANTAGE TO ALL CONCERNED.

2. MEANWHILE, LIKELIHOOD OF EARLY OFFICIAL DEVALUATION SUGGESTED IN REFTTEL SEEMS TO HAVE

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DIMINISHED, AS REPORTED OPPOSITION OF FINANCE

MINISTER AND GSL PREOCCUPATION WITH OTHER
ISSUES APPEAR TO HAVE DIVERTED ATTENTION ELSE-
WHERE. WE RELUCTANTLY CONCLUDE THAT WE CANNOT
COUNT UPON DEVALUATION TO PROVIDE AN EARLY
SOLUTION TO OUR EXCHANGE PROBLEM. THEREFORE,
HOPE THIS ISSUE CAN BE RESOLVED FAVORABLY BY
SEPT 1.
VAN HOLLEN

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NNN

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